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FM AMEMBASSY HANOI
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INFO RUEHHM/AMCONSUL HO CHI MINH 4539
RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC
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UNCLAS SECTION 01 OF 02 HANOI 000394

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E.O. 12958: N/A
TAGS: EAGR ECON ETRD VM
SUBJECT: VIETNAM CUTTING RICE EXPORTS; STORIES DIFFER ON SCALE AND
REASONS FOR REDUCTION

Ref: A) Hanoi 377 ("PM Declares War On Inflation");
B) Hanoi 206 ("Frozen Assets);
C) Monserrate-Brown April 1, 2008 Email

HANOI 00000394  001.2 OF 002

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¶1. (SBU) Summary: Vietnam, the world's second largest rice exporter in 2007, announced it will cut 2008 rice exports by 11 percent, and may reduce rice export volume by a further 11 percent, pending yields of early-year harvests. Despite recent international press reports identifying a domestic rice shortfall as the justification for the cuts, GVN data and estimates by industry analysts are not forecasting lower output in 2008. Rather, the Government says the cuts are an effort to stem rising domestic rice prices and curb inflation, postulating that an increased supply on the local market will stabilize, and perhaps reduce, the price of rice for domestic consumers. The policy may also be designed to demonstrate that the Government is aware of the effects of inflation and is taking measures to minimize its impact on the cost of living. Some prominent experts, however, are decrying the Government's intervention, saying that it harms farmers and protects state-owned export companies. End summary.

## GVN EXPLAINS REASONS FOR CUTTING EXPORTS

¶2. (U) Vietnam, the world's second largest rice exporter, may cut its rice export volume by up to 22 percent in 2008 in an effort to stabilize domestic rice prices and curb inflation, which hit 19.4 percent year-on-year in March (REF A). In a March 26 directive, the Government of Vietnam (GVN) announced that it will reduce rice exports to 4 million tons (down from 4.5 million tons in 2007, an 11 percent cut). The GVN may further adjust the limit to 3.5 million tons (22 percent lower than 2007), according to a statement by Trang Hieu Dung, head of the Ministry of Agriculture and Rural Development's (MARD) Planning Department. While announcements of this type are not new (between 2005 and 2006 the GVN cut exports from 5 million to 4.5 million tons), the GVN's decision to cut exports this year has coincided with similar decisions by other leading rice export countries like India, fueling fears of shortages across Asia.

¶3. (SBU) GVN officials have declared that Vietnam will continue to fulfill its signed rice export contracts - primarily with neighboring ASEAN countries and Cuba. In late March, for example,

Vietnam signed a tender to fulfill its pre-existing obligation to supply one million tons of rice to the Philipines, which constitues a significant portion of Vietnam's early yield. To ensure Vietnam continues to meet its contractual commitments, however, the GVN has extended an earlier freeze on new export contracts through June. Mr. Truong Thanh Phong, Chairman of the Vietnam Food Association, a quasi-governmental organization that serves as the GVN's mouthpiece on rice industry issues, announced that if Vietnam's early rice yields are bountiful, the Government may ultimately relax its prohibition on new contracts in early summer.

RICE AND COMMODITY PRICES RISING
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¶4. (U) GVN statements indicate that the decision to limit rice exports is driven largely by the belief that an increase in supply on domestic markets will stabilize prices. The GVN is seeking to dampen the impact of rising commodity prices, with mid-March rice prices 36 percent higher than March 2007, joining an overall trend wherein prices for foodstuffs (i.e., products such as eggs, milk, vegetables, dry/canned foods) have risen an average of 28 percent compared to a year ago, grain prices have risen 21.5 percent and housing and construction materials nearly 18 percent. Prices on other items, including electricity, water, fuel and gas, have also increased.

¶5. (SBU) There are some signs in the market that domestic rice prices have stabilized, and even fallen slightly (five percent), since the export restrictions were announced. (Comment: Perhaps as important as true price stability for the GVN is the perception that, through this policy, leaders are aware of the rising rice and commodity prices on Vietnamese citizens and are proactively working to address the situation. End comment.)

NO DOMESTIC SHORTFALL
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HANOI 00000394 002.2 OF 002

¶6. (U) Recent international press reports have pointed to domestic production shortfalls as the reason for Vietnam's decision to cut rice exports. MARD data and industry expert estimates, however, do not forecast a shortfall this year. A record cold spell in January and February (REF B) is not expected to decrease overall rice yields significantly, although it will delay by about one month the first rice crop of the year in the north. Any loss of output in the north will more than likely be made up for by increased yields in the Mekong Delta - where in some areas, yields are expected to increase to 6 tons/ha from 5 tons/ha last year. Local analysts also refute recent press reports that Vietnamese rice yields will suffer due to a pest outbreak, saying that the impact of pests in 2008 will be no larger than in past years. In fact, total output in 2008 is expected to remain relatively stable at 35.21 million tons (down slightly from 35.26 million tons last year).

SOME DOUBTERS
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¶7. (U) The GVN decision to cut exports has some vocal, and prominent, detractors. Professor Vo Tong Xuan, former Dean of An Giang University and widely-acclaimed expert on rice farming in Vietnam, discounts the official justifications provided by the GVN. In an interview with Vietnamese press outlet VietnamNet, Dr. Xuan expressed his belief that the export limits are in place to protect state-owned export companies who won international tenders at low prices, but are now unable to buy rice supplies domestically at a price that prevents them from taking a loss. During the interview, Dr. Xuan blamed poor macro-economic policy making for the current "inflation crisis," and criticized the GVN's intervention for harming farmers in order to protect large state-owned enterprises.

COMMENT
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¶8. (SBU) Past years have shown that GVN-announced targets for rice

and commodity exports are flexible and subject to adjustment, particularly in the third quarter when crop data is more readily available. Most experts believe that a reduction in exports as high as 22 percent is unlikely in 2008, estimating instead that Vietnam will export from 4 to 4.5 million tons of rice this year, equivalent to an 11 percent reduction. As Professor Xuan's outspoken criticism shows, some constituencies are not supportive of the export cap. Rice farmers stand to lose the most if the GVN keeps exports low, as the policy prevents them from taking full advantage of high global rice prices at a time when input prices (fertilizer, pesticides and labor) are rising rapidly.

¶9. (U) This cable was coordinated with FAS and ConGen HCMC.

MICHALAK